Statement of
Howard Hjort, Director of Economics, Policy Analysis and Budget
for
Hearing before the Subcommittee on Economic Stabilization of
the House Committee on Banking, Finance and Urban Affairs

September 19, 1978

Thank you for the invitation to appear before your subcommittee to discuss the food price situation and outlook. In my testimony last year, I reported that the Department of Agriculture had forecast a 3 to 6 percent increase in the cost of food in 1978 at the retail level. Time--as it often does--has proven that estimate to be a little short of what has occurred. In my testimony today, I will try to explain what actually has happened with food prices this year.

Last year we concentrated on nonfarm food costs which have been the most persistent source of food price inflation over the past six years. I will briefly discuss the impact of those costs but will also address some of the other factors affecting food prices.

The basic fact remains that two-thirds of every dollar spent in 1978 for U.S. farm-produced foods goes to pay the costs associated with bringing that food from farm-gate to check-out counter. Therefore, when inflation in the general economy is boosting these costs at an annual rate of 7 percent, consumers will pay 4.5 to 5 percent more at the food store, even if the farmer receives not one penny more for what he has produced. This would imply that for every one-percent change in the rate of inflation in the general economy, one could expect a two-thirds percent change in the retail food store bill.

The remaining one-third of every dollar is in the raw farm product component. This year increases in farm prices have pushed food costs higher; however, the basic trends in non-farm costs have continued. Since 1973, consumer expenditures for farm-produced foods have increased

nearly $66 billion--a 50 percent increase. More than three-fourths of this increase has been due to nonfarm charges for marketing the product after it left the farm. The labor bill itself increased more than $25 billion, accounting for nearly 40 percent of the increased outlays by consumers. On the other hand, the farm value has increased about $15 billion since 1973; most of the increase occurred in 1977 and 1978.

In 1978, grocery store food prices will probably average about 10 percent above 1977. Farm prices, now expected to average about 15 percent above the depressed levels of a year earlier, may account for almost half the average 1978 food price increase. Contributing significantly to this increase were smaller-than-expected meat supplies at a time of increased consumer demand. This led to a rapid acceleration in livestock prices in the first half of the year. Heavy rains in central California early this year also contributed to increases, delaying and disrupting normal planting and harvesting, affecting both volume and quality of certain vegetables and thereby pushing prices up sharply for a short time.

Marketing charges are expected to average 7 to 8 percent higher for the year and account for nearly 40 percent of the total food price increase. Prices for fish and imported foods, now expected to average about 10 percent above last year, are accounting for the remainder of the increased food prices.

After their steep climb during the first half of the year, retail food prices have leveled off this summer. For the balance of this year, they are expected to hold about steady, barring unusual weather or other events. Seasonally large food supplies and a little less pull from consumer demand might cause farm-level prices to slip a little further.

Even so, marketing and distributors' costs will offset this and food prices will not reflect the decline.

Food prices in the third quarter are likely to average about 2 percent above the second quarter while fourth quarter retail food prices are expected to show little change. Lower prices for red meat and poultry along with seasonally lower prices for fresh fruit should about offset moderate price increases in most other food categories.

The 1978 Set-Aside Program

Weather has more to do with production than do policies, and we have another lesson this year.

The set-aside program for major crops announced in March 1978, was generally successful in bringing the agricultural plant into better balance. The program was designed to obtain a combined set-aside of approximately 22 million acres of wheat, feed grains and cotton with a total harvested acreage of around 168 million acres. As of September, the estimated set-aside was approximately 17 million acres with a harvested acreage of these crops totaling around 171 million.

While the acreage adjustments were a little short of expectation, weather and relative prices at planting time were significant factors influencing the crop production patterns and producer participation in the programs--particularly for feed grains. At planting time, feed grain prices were well above the loan rate and the futures market indicated continued strength for both feed grains and soybeans. With the program structured for producers to sign up but withdraw later if they felt a more favorable market alternative existed, the strength in feed grain and soybean markets

Table 1.--Food expenditure components, 1967-1978

Item	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	Forecast 1977	Forecast 1978
	Billions of Dollars											
Personal consumption expenditures for food and beverage 1/	109.6	118.3	126.1	136.3	140.6	150.4	168.1	189.9	209.5	225.5	246	266
Less alcohol	14.6	15.6	16.6	17.7	18.6	19.8	21.3	23.0	24.7	26.0	28	30
PCE for food	95.0	102.7	109.5	118.6	122.0	130.6	146.8	166.9	184.8	199.5	218	236
U.S. farm food expenditures 2/	90.3	94.0	97.8	106.0	110.8	117.9	135.3	149.2	161.4	Forecast 172.3	182	201
Farm value	28.8	30.4	33.7	34.8	35.3	39.4	51.1	56.0	54.9	56.3	57	66
Marketing bill	61.4	63.6	64.1	71.2	75.4	78.5	84.2	93.2	106.5	116.0	125	135
Labor	25.9	28.0	30.4	32.3	34.5	37.6	40.6	44.8	49.1	54.3	60	66
Packaging	7.2	7.8	8.0	9.1	9.7	10.2	10.9	12.1	14.2	15.0	16	17
Transportation	4.3	4.5	4.6	5.2	6.0	6.1	6.1	7.3	8.3	9.5	10	11
Other	24.0	23.3	21.1	24.6	25.2	24.6	26.7	29.1	34.9	37.2	39	41

1/ Department of Commerce, Bureau of Economic Analysis. These estimates of food expenditures differ in several respects from ERS estimates of expenditures for farm foods. The BEA estimates of all food include the value of imported foods, seafoods, food furnished military personnel, and food consumed on farms where produced, but the ERS estimates exclude these items. However, the BEA estimates exclude the value of food furnished hospital patients, students in boarding schools, and inmates of institutions, food furnished by Government agencies to schools and needy persons, food purchased as a business expense, and the value of food served by airlines to their passengers, which the ERS estimates include.

2/ USDA-ERS.

Figure 1

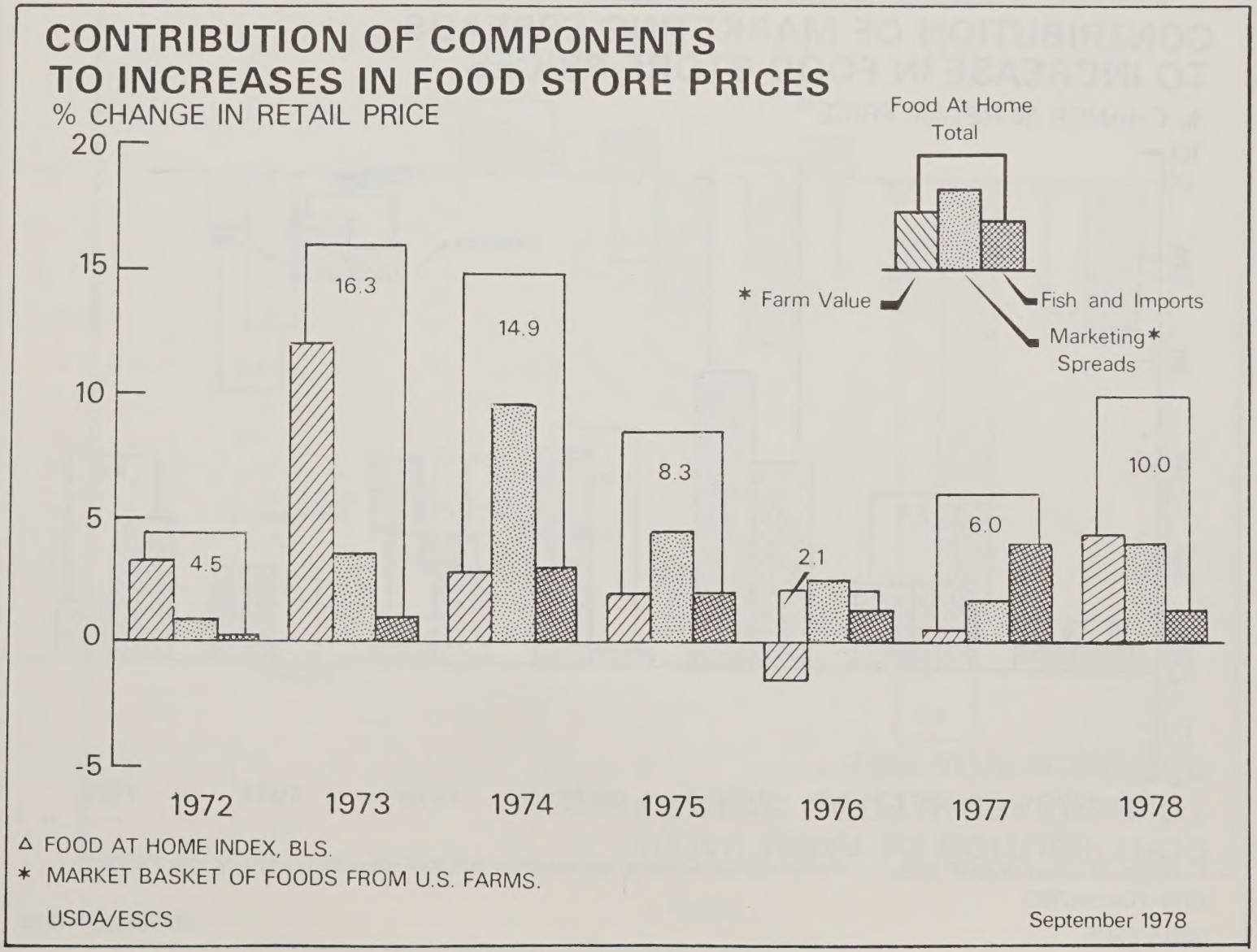

CONTRIBUTION OF COMPONENTS
TO INCREASES IN FOOD STORE PRICES
% CHANGE IN RETAIL PRICE
20
15
10
5
0
-5
4.5
16.3
14.9
8.3
2.1
6.0
10.0
1972
1973
1974
1975
1976
1977
1978
Food At Home
Total
* Farm Value
Fish and Imports
Marketing*
Spreads
Δ FOOD AT HOME INDEX, BLS.
* MARKET BASKET OF FOODS FROM U.S. FARMS.
USDA/ESCS
September 1978

Figure 2

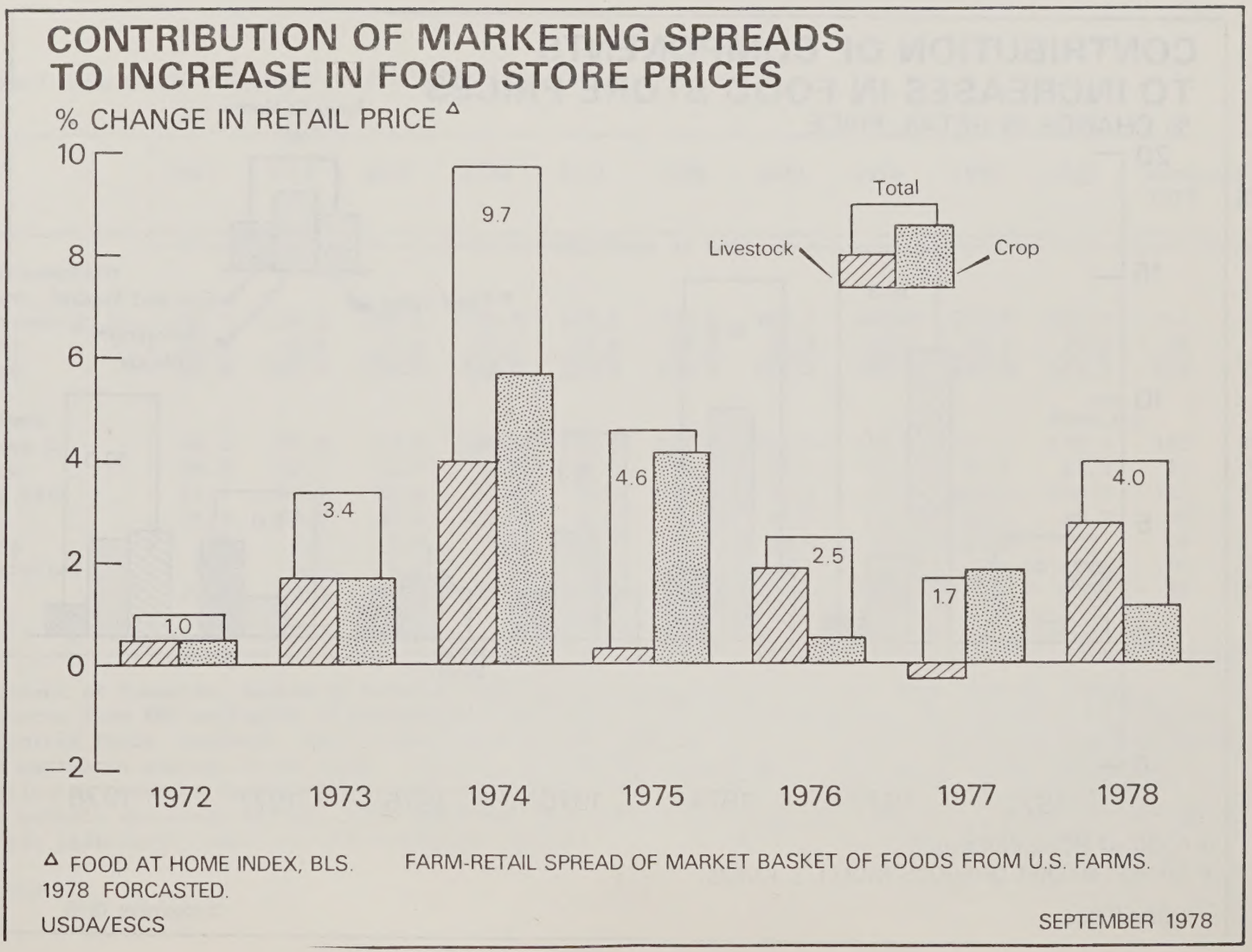

CONTRIBUTION OF MARKETING SPREADS
TO INCREASE IN FOOD STORE PRICES
% CHANGE IN RETAIL PRICE Δ
10
8
6
4
2
0
−2
1.0
3.4
9.7
4.6
2.5
1.7
4.0
Total
Livestock
Crop
1972
1973
1974
1975
1976
1977
1978
Δ FOOD AT HOME INDEX, BLS.
1978 FORCASTED.
FARM-RETAIL SPREAD OF MARKET BASKET OF FOODS FROM U.S. FARMS.
USDA/ESCS
SEPTEMBER 1978

Figure 3

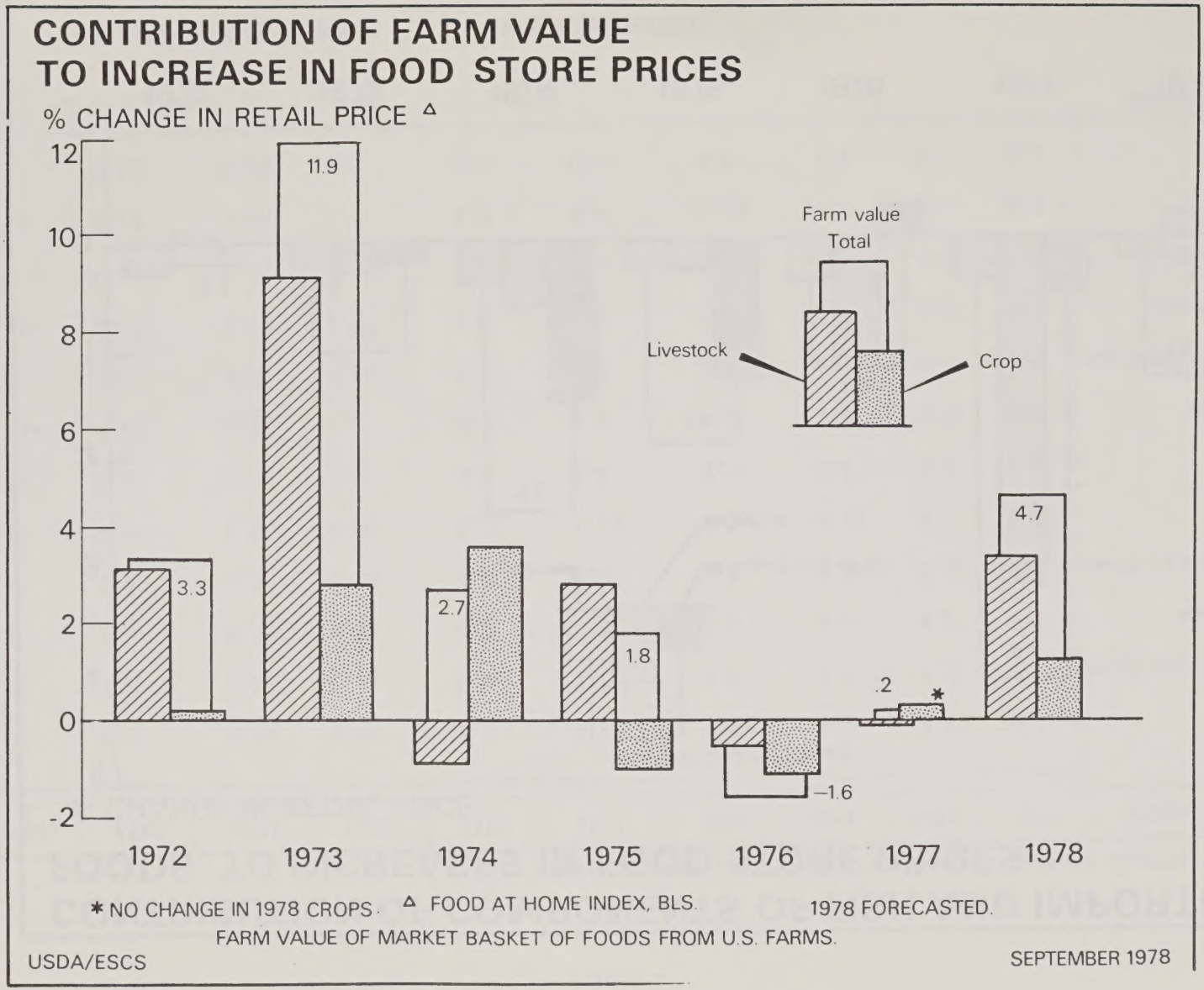

CONTRIBUTION OF FARM VALUE
TO INCREASE IN FOOD STORE PRICES
% CHANGE IN RETAIL PRICE △
12
10
8
6
4
2
0
-2
11.9
3.3
2.7
1.8
.2
*
4.7
-1.6
Farm value
Total
Livestock
Crop
1972
1973
1974
1975
1976
1977
1978
* NO CHANGE IN 1978 CROPS. △ FOOD AT HOME INDEX, BLS. 1978 FORECASTED.
FARM VALUE OF MARKET BASKET OF FOODS FROM U.S. FARMS.
USDA/ESCS
SEPTEMBER 1978

Figure 4

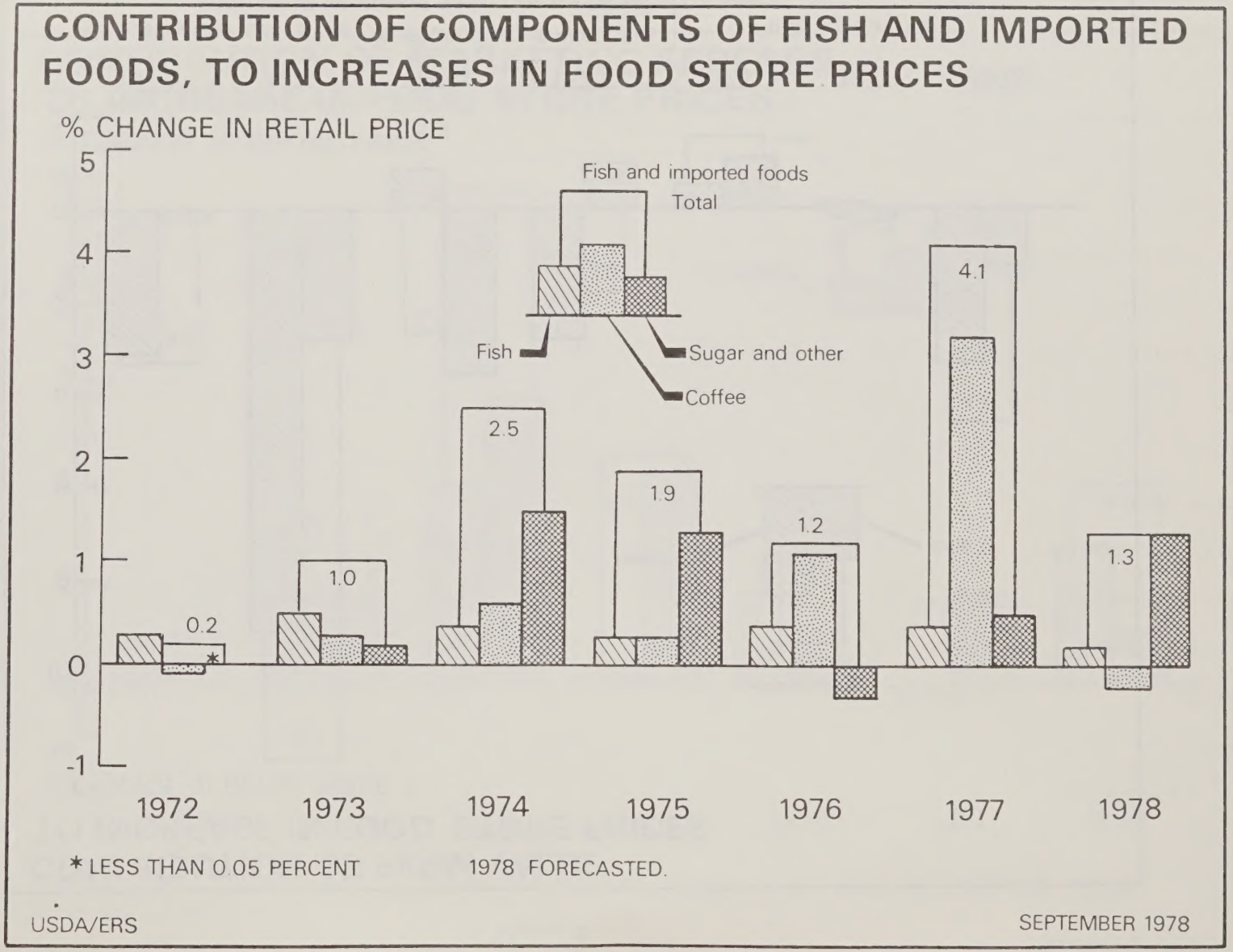

CONTRIBUTION OF COMPONENTS OF FISH AND IMPORTED FOODS, TO INCREASES IN FOOD STORE PRICES
% CHANGE IN RETAIL PRICE
5
4
3
2
1
0
-1
Fish and imported foods
Total
Fish
Sugar and other
Coffee
0.2
1.0
2.5
1.9
1.2
4.1
1.3
1972
1973
1974
1975
1976
1977
1978
* LESS THAN 0.05 PERCENT
1978 FORECASTED.
USDA/ERS
SEPTEMBER 1978

Table 2.--Annual average changes in Retail Food Prices, 1967- 1978

Food Category	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
						Forecast						
All Food	.9	3.6	5.1	5.5	3.0	4.3	14.5	14.4	8.5	3.1	6.3	10
Food away from home	5.3	5.1	6.2	7.4	5.2	4.0	7.9	12.9	9.2	6.8	7.6	9
Food at Home	- 0.3	3.2	4.8	5.1	2.4	4.5	16.3	14.8	8.2	2.1	6.0	10
Meat, Poultry, Fish	- 2.5	2.2	8.4	5.1	0.3	9.5	25.3	2.2	8.7	0.8	-0.3	16
Eggs	-16.4	7.8	17.6	-1.0	-13.7	-0.6	48.7	0.4	-1.9	9.3	-3.2	-2
Dairy	4.3	3.3	3.3	4.8	3.1	1.6	9.2	18.8	3.1	8.1	2.7	6
Fats & Oils	- 0.2	- 0.9	0.4	6.3	9.1	1.0	8.4	41.9	10.7	-12.5	10.2	9
Fruits & Vegetables	- 0.1	7.9	1.3	3.8	5.0	5.0	14.0	16.4	3.1	2.6	12.6	11
Sugar & Sweets	3.0	3.4	5.5	5.5	3.6	1.3	6.1	52.1	26.1	-11.3	5.1	13
Cereal & Bakery	2.3	0.4	2.9	5.4	4.6	0.7	11.3	30.1	10.9	- 2.2	1.6	8
Beverages	- 0.8	1.9	2.6	12.2	3.6	- 0.3	7.3	19.5	15.0	19.6	50.7	7
Other	1.1	1.9	3.4	3.8	3.0	1.8	3.7	21.3	13.0	3.9	3.5	8

* Forecasts

Table 3.--Changes in farm-retail spreads for selected domestically produced foods, 1967-1977 1/

Item	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
	Percent changes										
Market basket 2/	2.3	2.0	2.8	7.4	2.8	2.1	6.2	20.0	8.9	4.9	3.3
Livestock products	1.4	2.5	3.1	10.8	.6	2.1	7.4	19.3	1.4	9.6	-0.8
Meats	.4	2.2	4.9	14.8	-.6	3.5	9.1	21.9	.4	14.5	-4.8
Dairy	3.9	1.9	.9	6.5	3.5	.8	4.2	20.8	1.3	5.2	5.0
Poultry	.7	4.3	4.2	8.0	-3.7	0	11.5	3.4	6.7	0	-1.0
Eggs	.6	7.1	0	6.7	0	0	6.2	5.9	5.6	0	5.8
Crop products	2.6	1.6	2.6	5.0	4.5	2.0	5.3	20.5	14.6	1.8	6.4
Fresh fruits	2.4	9.4	2.9	0	8.3	7.7	7.1	13.3	3.9	1.9	14.4
Fresh vegetables	2.3	4.3	4.1	7.8	1.8	7.1	18.3	11.3	-6.3	9.5	12.2
Proc. frts. & vegs.	1.3	3.4	0	5.4	5.2	2.0	4.8	19.3	13.1	2.7	4.8
Fats and oils	5.8	0	0	3.6	6.9	6.5	-6.1	32.3	31.7	11.1	0.4
Bakery and cereal	3.5	2.1	3.5	4.7	4.5	-1.8	3.8	25.3	18.8	2.4	2.4
Choice beef	4.6	1.0	13.7	9.1	-1.6	13.4	10.1	15.6	.8	14.9	-4.3
Pork	1.9	1.5	-2.7	20.6	-1.6	-6.6	7.9	23.8	1.5	16.2	-6.8
Bread, white	2.2	1.6	3.1	5.6	2.4	-1.9	5.7	20.4	9.8	1.7	4.0

1/ Farm-retail spread is the difference between retail price and farm value and represents charges for assemblying, processing, transporting, and distributing foods.

2/ Market basket of foods from U.S. farms.

3/ Forecast

motivated farmers to make larger than expected plantings of corn, grain sorghum, barley and soybeans.

Wheat production, however, will be slightly less than expected, while cotton production is well below expectations. Feed grain production, however, especially corn, will be well above expectations. Soybean production is likely to be very close to expected.

1978/79 Crop Production

		Program Analysis 1/	September '78 Official USDA
Wheat	Mil.bu.	1,866	1,788
Cotton	Mil.bls.	11.8	11.2
Feed grains	Mil.MT	187	209
Corn	Mil.bu.	5,962 (151MT)	6,798 (173 MT)
Soybeans	"	1,759	1,772

1/ Supply/demand projections developed for program decision.

The production levels coupled with demand prospects leave the 1978/79 wheat supply/demand balance about as expected. Farm prices will probably average 50 cents above the 1977/78 season average farm price of $2.31. Carryover stocks are likely to drop only slightly.

Cotton yields are forecast to be the lowest in the last 30 years, due to weather and insect damage. Carryover stocks at the end of the 1978/79 marketing year are likely to be more than adequate, with a slightly stronger price picture.

The 1978/79 feed grain crop is currently projected to reach a record 209 million metric tons largely due to abnormally favorable weather pushing corn yields, and therefore production, to record levels. The corn yield for 1978 is currently projected to be 3 bushels per acre above the previous record and 16 bushels per acre above the average yield in the previous four years. Production of the remaining feed grains--grain

sorghum, barley and oats--is about as expected, with stocks increasing only for barley. Prices will likely average near last year's level. Carryover stocks of corn will increase sharply if production meets currently projected levels and prices may average below 1977/78 levels. While the feed grain reserve program has supported prices somewhat, until recent weeks quantities going into the reserve have lagged earlier estimates.

The Grain Reserve Program

The farmer-owned food grain reserve was initiated in April 1977; it was expanded to include feed grains in August 1977. The program is the cornerstone of the Administration's food and farm policy. It will remove the excess when large crop supplies depress prices and will provide reserve supplies when crops are poor and prices high.

The expanded reserve has a goal of at least 330 million bushels of wheat and 670 million bushels of feed grains (corn equivalent), all remaining under farmer control. A government-owned component of the reserve will retain up to 220 million bushels of wheat for international food aid commitments. As of September 15, we had surpassed our objective by 20 percent for the farmer-owned wheat reserve, with nearly 400 million bushels of the 1976 and 1977 supplies.

We are still short of our October 1 objective on the feed grain reserve. As of last week we had a total of 362 million bushels of 1976- and 1977-crop corn, sorghum, barley and oats; however, in the past several weeks, entries have been particularly heavy, and we expect our goals to be reached before the end of the year. 1978-crop corn and sorghum will be eligible for direct entry into the reserve as needed to meet the goal.

The reserve has done much to improve producer prices. The price of wheat in August 1977 averaged $2.13 per bushel; this August the price averaged $2.79. Corn prices averaged $1.63 when the reserve was announced in August 1977, increased to about $2.30 in May and June and declined to $1.99 in August.

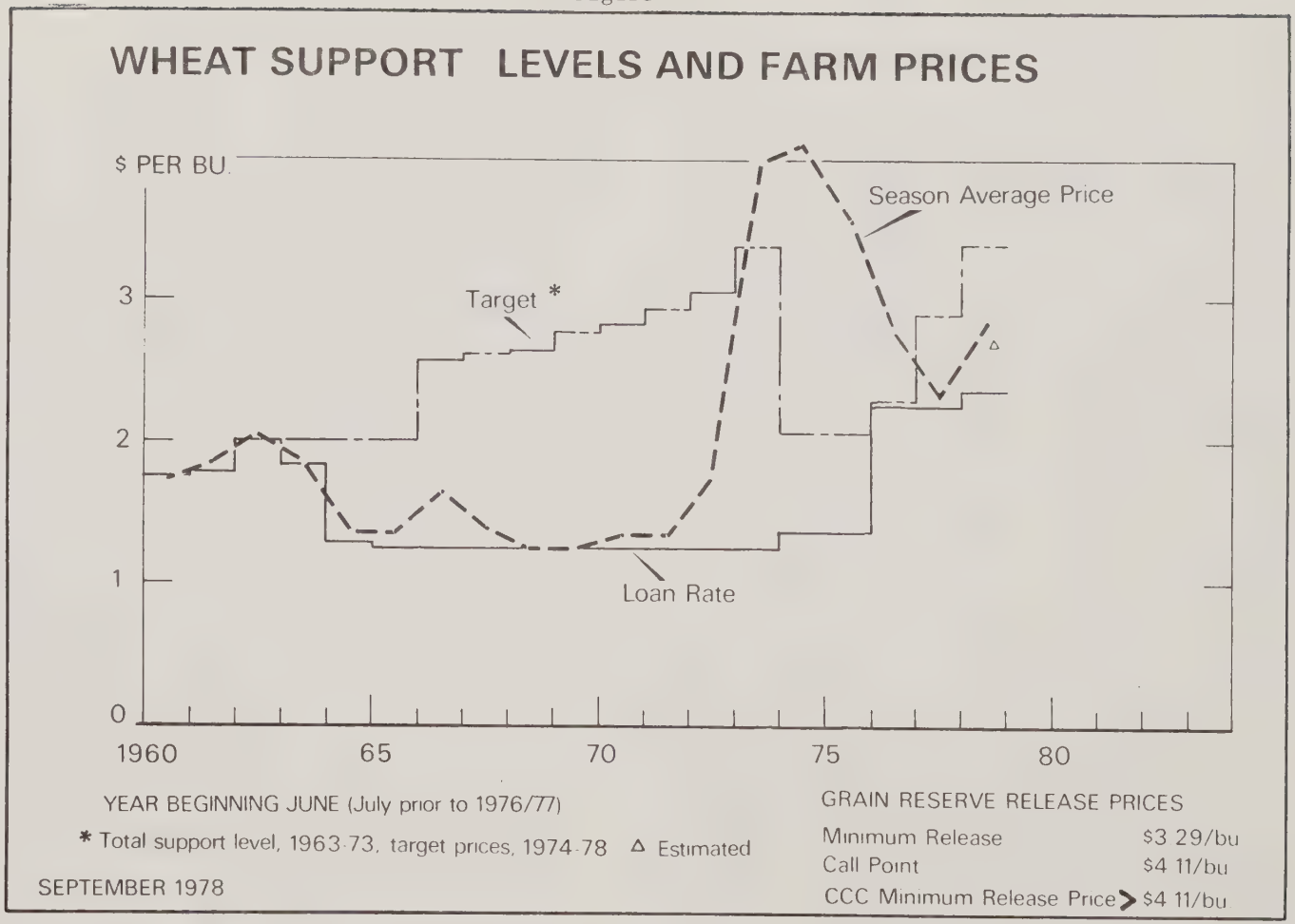
The farmer-owned reserve program allows producers to receive cash for their grain at the loan rate, plus payments for storage. Producers retain ownership of the grain and make the final marketing decisions on it. Storage payments are 25 cents per bushel per year for all grains except oats, set at 19 cents. The producer is required to pay interest on his loan only for the first year the crop is in the reserve.

The producer signs a three-year contract, agreeing to hold the grain from the market until the price reaches the release level. The release level is 125 percent of the loan for feed grains and 140 percent of the loan for wheat. At current loan levels, then, the national average market price must reach $2.50 for corn and $3.29 for wheat for the producer to remove the grain from the reserve without penalty.

The producer is not required to remove his grain from the reserve when the market price reaches the release level. The grain may remain in the reserve until the price reaches 140 percent of the feed grain loan ($2.80 for corn) and 175 percent of the loan for wheat ($4.11). At that time, the producer has 30 days to redeem his loan or forfeit his grain. He may, of course, elect to repay the loan and hold the grain on his own for higher market prices.

Though neither the release nor the call level provisions of the reserve program place a "ceiling" on farm prices, producers can be

Figure 5


WHEAT SUPPORT LEVELS AND FARM PRICES
$ PER BU.
Season Average Price
Target *
Loan Rate
3
2
1
0
1960
65
70
75
80
YEAR BEGINNING JUNE (July prior to 1976/77)
* Total support level, 1963-73, target prices, 1974-78 Δ Estimated
SEPTEMBER 1978
GRAIN RESERVE RELEASE PRICES
Minimum Release $3 29/bu
Call Point $4 11/bu
CCC Minimum Release Price > $4 11/bu

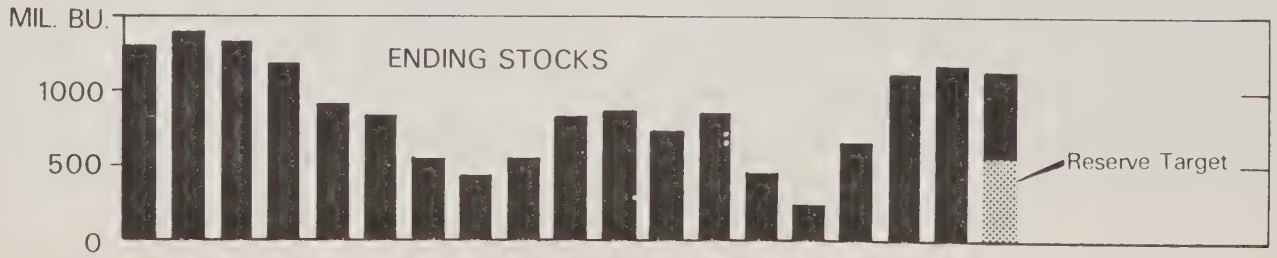
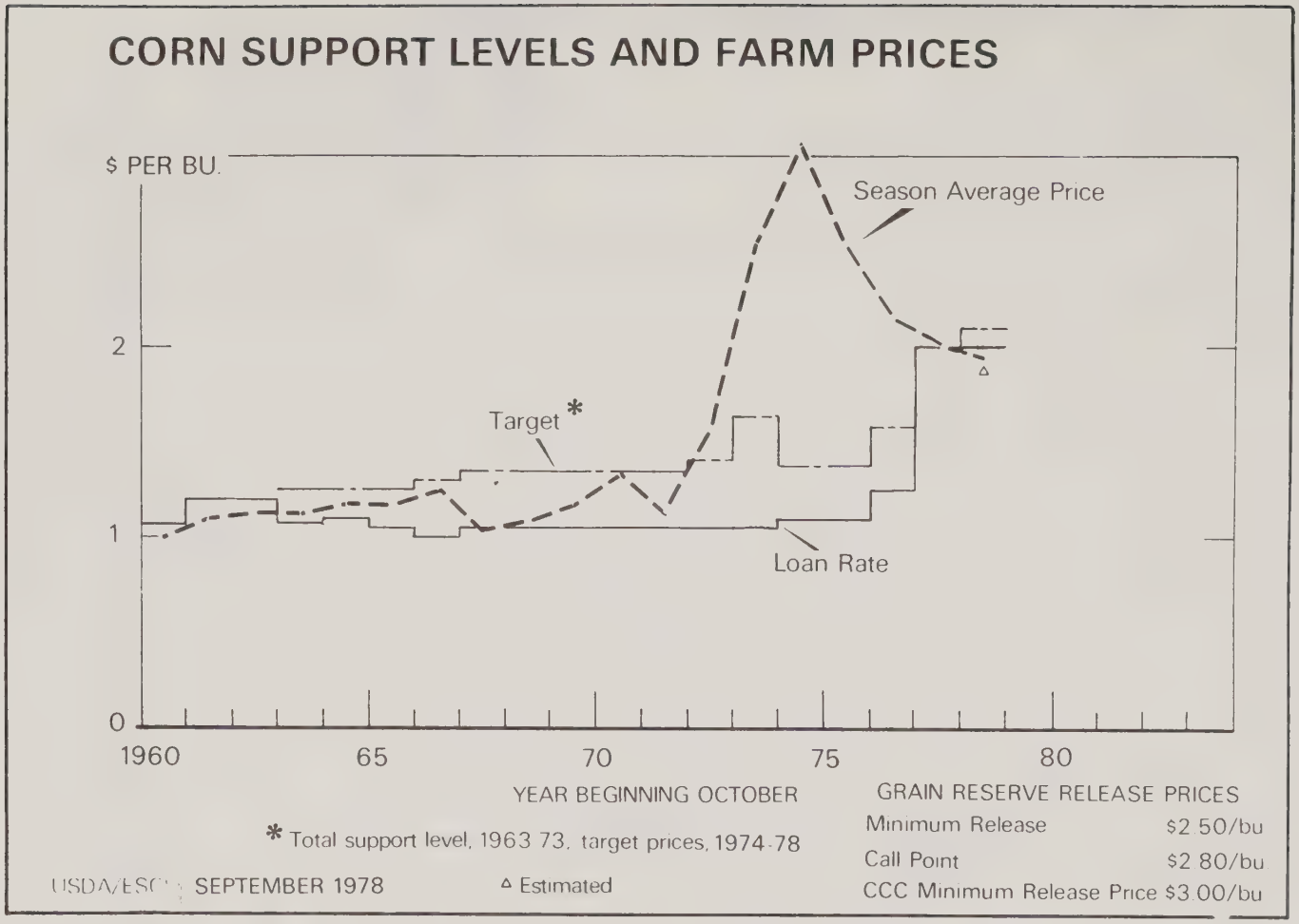

MIL. BU.
ENDING STOCKS
1000
500
0
Reserve Target

Figure 6


CORN SUPPORT LEVELS AND FARM PRICES
$ PER BU.
2
1
0
Season Average Price
Target *
Loan Rate
1960
65
70
75
80
YEAR BEGINNING OCTOBER
* Total support level, 1963 73, target prices, 1974-78
USDA/ESCS SEPTEMBER 1978
Δ Estimated
GRAIN RESERVE RELEASE PRICES
Minimum Release $2.50/bu
Call Point $2.80/bu
CCC Minimum Release Price $3.00/bu

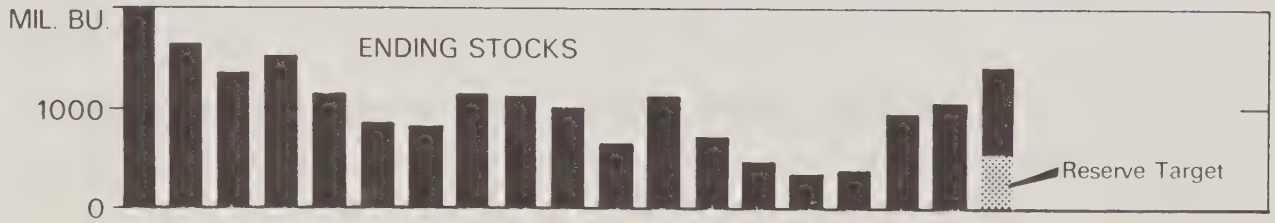
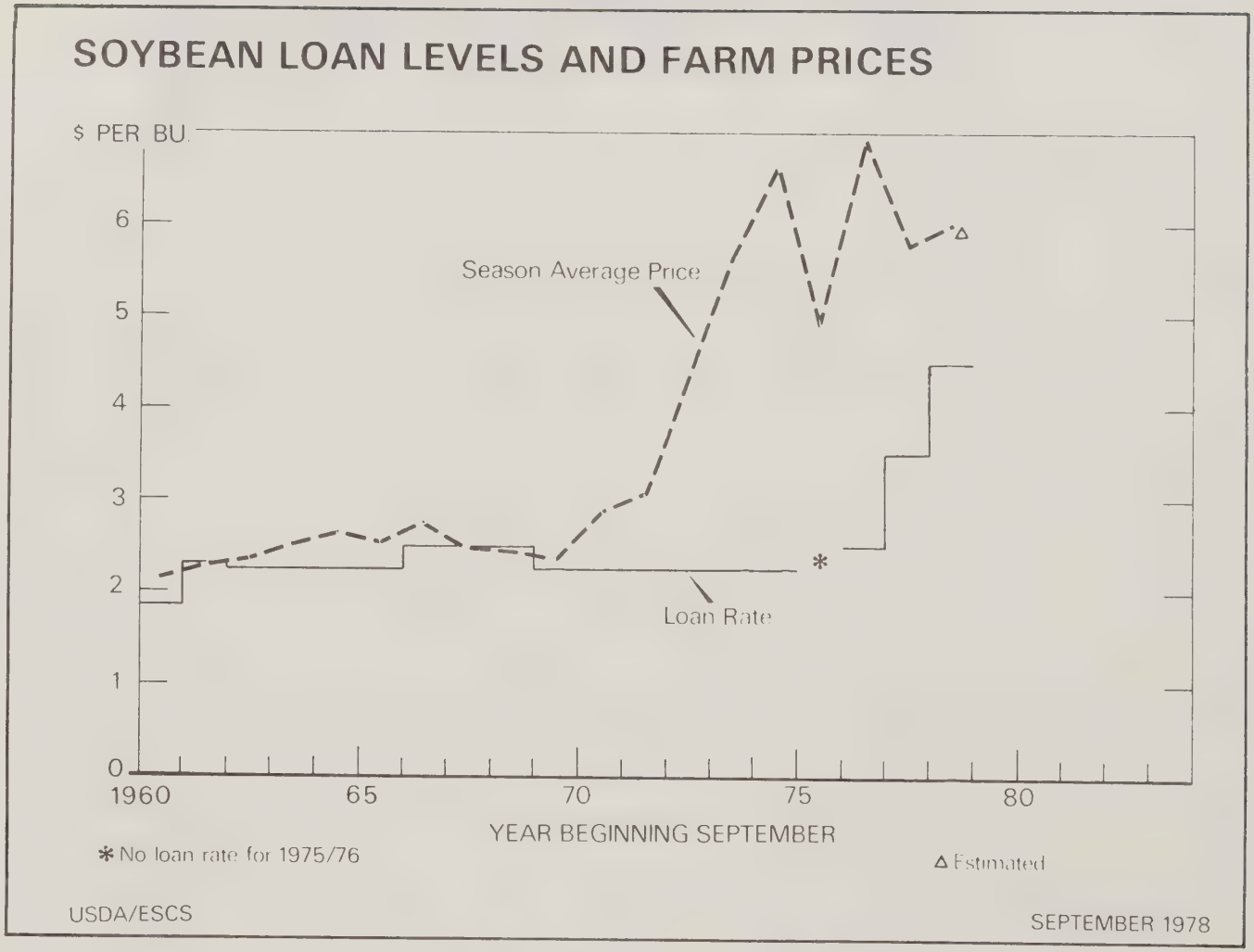

MIL. BU.
ENDING STOCKS
1000
0
Reserve Target

Figure 7


SOYBEAN LOAN LEVELS AND FARM PRICES
$ PER BU.
6
5
4
3
2
1
0
Season Average Price
Loan Rate
*
1960
65
70
75
80
YEAR BEGINNING SEPTEMBER
* No loan rate for 1975/76
Δ Estimated
USDA/ESCS
SEPTEMBER 1978

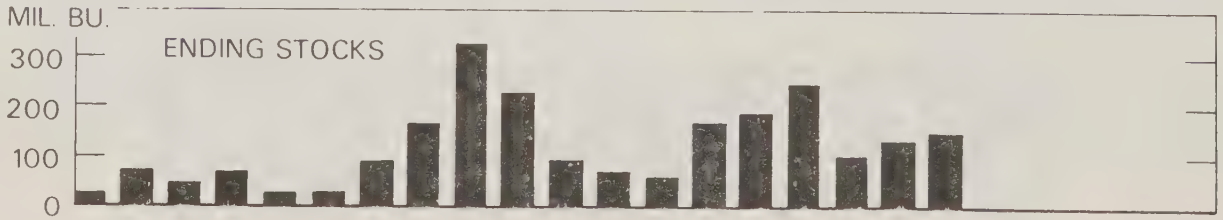
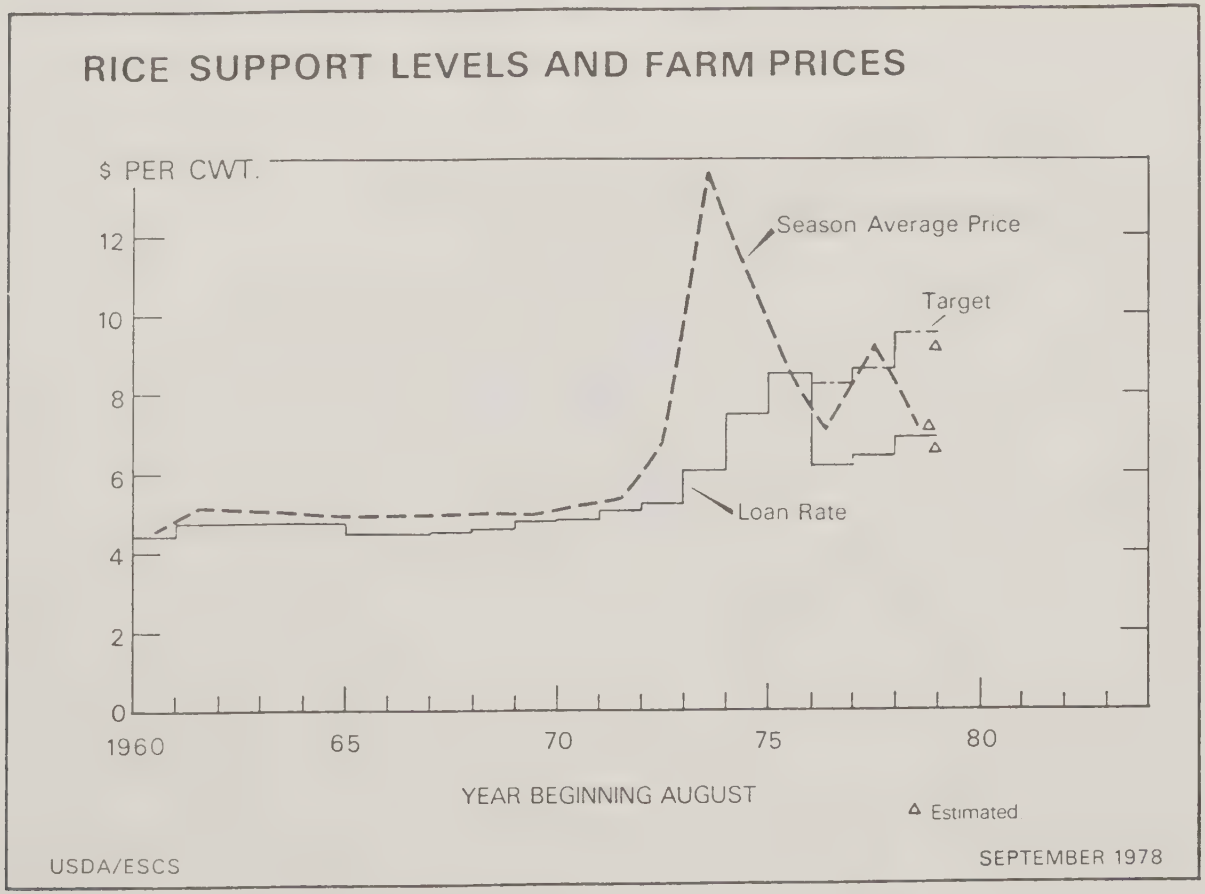

MIL. BU.
ENDING STOCKS
300
200
100
0

Figure 8


RICE SUPPORT LEVELS AND FARM PRICES
$ PER CWT.
12
10
8
6
4
2
0
Season Average Price
Target
Loan Rate
1960
65
70
75
80
YEAR BEGINNING AUGUST
Δ Estimated
USDA/ESCS
SEPTEMBER 1978

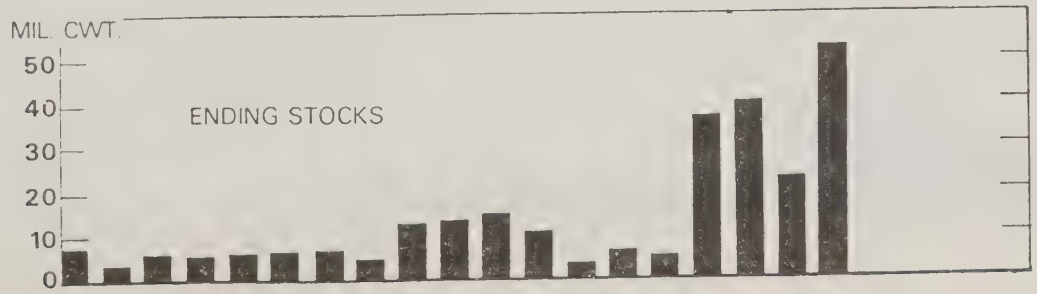
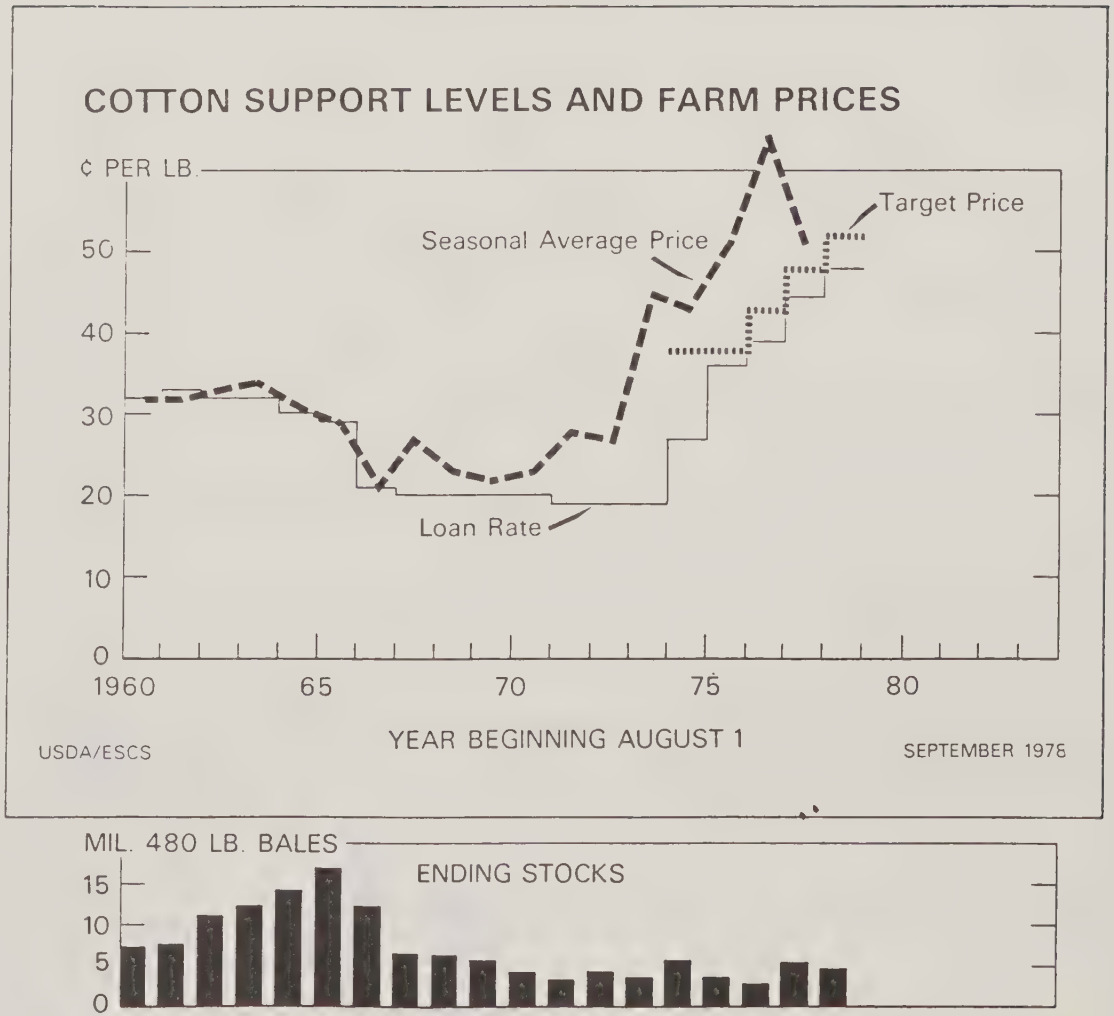

MIL. CWT.
50
40
30
20
10
0
ENDING STOCKS

Figure 9


COTTON SUPPORT LEVELS AND FARM PRICES
¢ PER LB.
50
40
30
20
10
0
Seasonal Average Price
Target Price
Loan Rate
1960
65
70
75
80
YEAR BEGINNING AUGUST 1
USDA/ESCS
SEPTEMBER 1976
MIL. 480 LB. BALES
ENDING STOCKS
15
10
5
0

expected to gradually release supplies onto the market after it reaches the minimum release level. This will moderate any market price increases during periods of tight supplies.

The Cattle Cycle and Pork Production

The smaller than expected pork supply in 1978 was a major contributor to the larger-than-forecast increase in retail food prices. Beef production in 1978 was anticipated to be less than in 1977 as the cattle liquidation process cut into the herd size.

We earlier thought favorable feeding margins in 1977 would trigger an expansion in pork production of at least 10 percent. A report of producers' intentions late in 1977 supported this prediction. At that time, it was reasonable to expect the increased pork supplies would combine with expanded broiler production and would more than offset the smaller beef supplies. Even with the anticipated rise in beef prices, larger meat supplies and the forecasted moderate increase in consumer incomes did not suggest sharply higher prices for all meats.

However, several factors altered the expected increase in pork production. Uncharacteristically all served to reduce production. The widely publicized consensus among livestock analysts that hog prices would be dropping in early 1978 due to larger supplies provided a discouraging price outlook for producers. Cold weather during December, January and February and an increase in disease caused breeding and farrowing problems and contributed to larger than normal death losses. Finally the nitrates issue may have posed an additional uncertainty for producers in a market which was already expected to drop. As a result, producers simply did not expand output as much as their

earlier reported plans indicated. Instead of an increase of 10 percent, 1978 pork production will increase only 1-2 percent.

However, pork production was not the sole determinant of increased meat and livestock product prices. In addition to smaller total supplies of meat in the first half of the year, economic activity was strong. Rising consumer demand and inflationary pressures also combined to push prices up sharply for all livestock products.

Plentiful supplies of 1978 feed grains and soybeans should encourage expanded livestock and poultry feeding in coming months. However, the record feed grain crop may not be a panacea for the livestock industry. The large crop and correspondingly lower prices could cause overstimulation of production and once again put the livestock industry in the unstable situation which has plagued both producers and consumers in the last five years. The feed grain reserve will remove some of this excess supply, but the potential instability will be a key consideration in developing set-aside programs for 1979.

Meat supplies will hold relatively steady through this year and on into 1979. Continued year-to-year gains in output of fed beef, pork and poultry will offset further declines in production of nonfed beef. The production mix has important implications for consumer food prices. Through June, retail hamburger prices were 40 percent above a year ago. Prices of steaks were up 30 percent, roasts up 25 percent, broiler prices up 16 percent, and ham up 11 percent.

In 1979 we are expecting 1 to 1 1/2 billion pound decline in beef production. Poultry and other meat production which was up 850 million pounds in 1978--is expected to increase 600 to 1,100 million

pounds in 1979. A major uncertainty is the magnitude of the increase in pork production. But an increase of around 400 million pounds (about a 3 percent increase) would be required to maintain total per capita meat supplies in 1979 at 1978 levels.

Supply/Demand Balances and 1979 Set-Aside

The Secretary of Agriculture is authorized to call for set-aside of cropland if he determines that food or feed supplies exceed the amount needed to maintain reasonable supplies and prices and meet any national emergency.

To determine whether supplies are "excessive," foreign, as well as domestic, supplies be taken into consideration. The U.S. supply-use balance hinges considerably on foreign demand for U.S. farm products.

That foreign demand is related to production elsewhere in the world. World grain production recovered in 1976 from two years of unusually bad weather to set an all-time high, thanks to abnormally favorable weather worldwide. Global output in 1977 was good, though not as strong as 1976.

Today it looks as if 1978 production may surpass the 1976 record; total world grain output is forecast around 1.5 billion metric tons. Consumption will also be record high, but production is still likely to surpass world requirements.

It is important to note, however, that a forecast at this stage is quite tenuous, since many Southern Hemisphere crops are still being planted.

Currently favorable wheat and rice crops suggest world food grain production should be about 5 percent higher in 1978 and slightly above

Figure 10

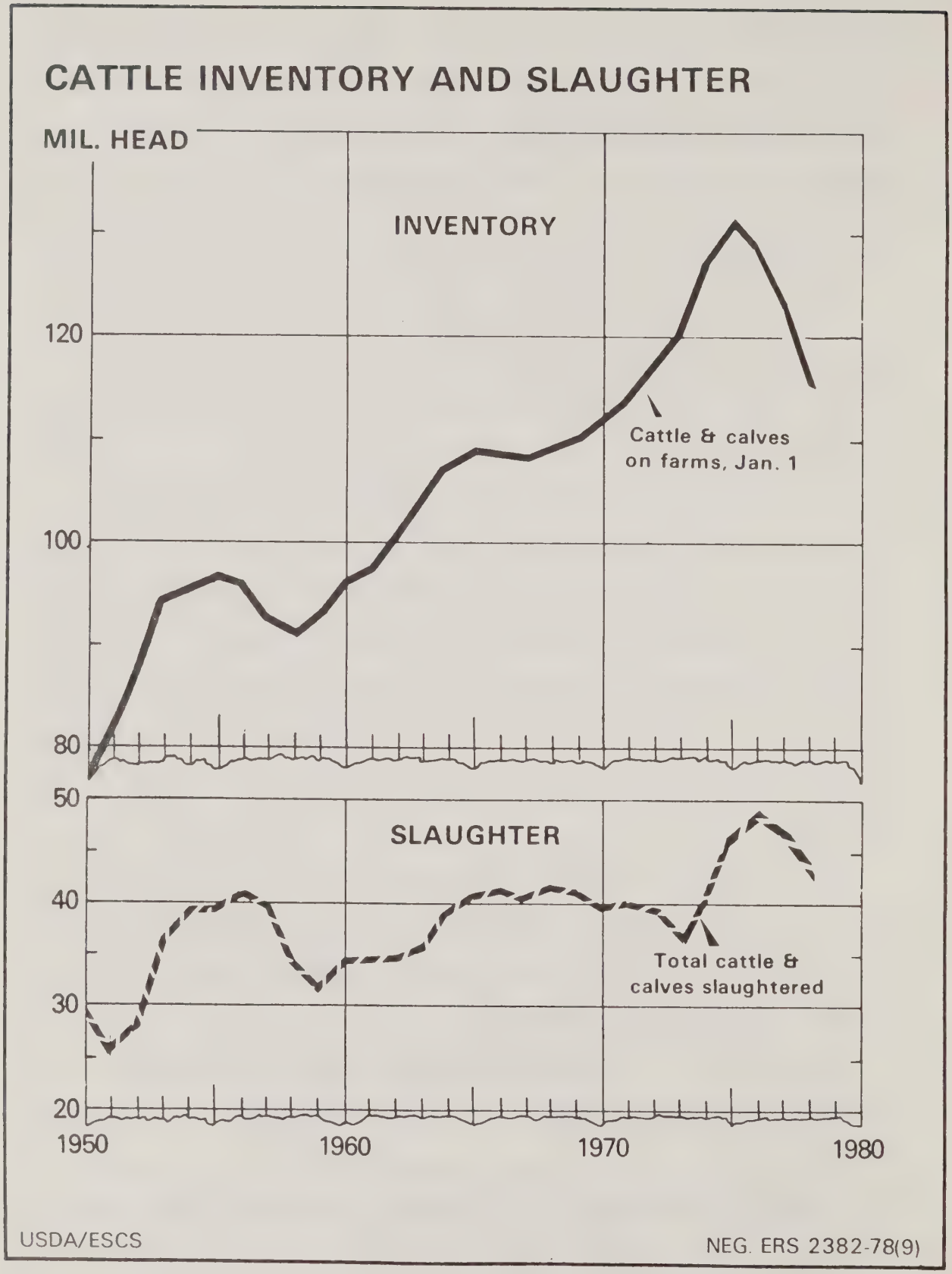

CATTLE INVENTORY AND SLAUGHTER
MIL. HEAD
INVENTORY
120
100
80
Cattle & calves
on farms, Jan. 1
50
SLAUGHTER
40
30
20
Total cattle &
calves slaughtered
1950
1960
1970
1980
USDA/ESCS
NEG. ERS 2382-78(9)

FIGURE 1. PRODUCTION LAGS DUE TO BIOLOGICAL LAGS

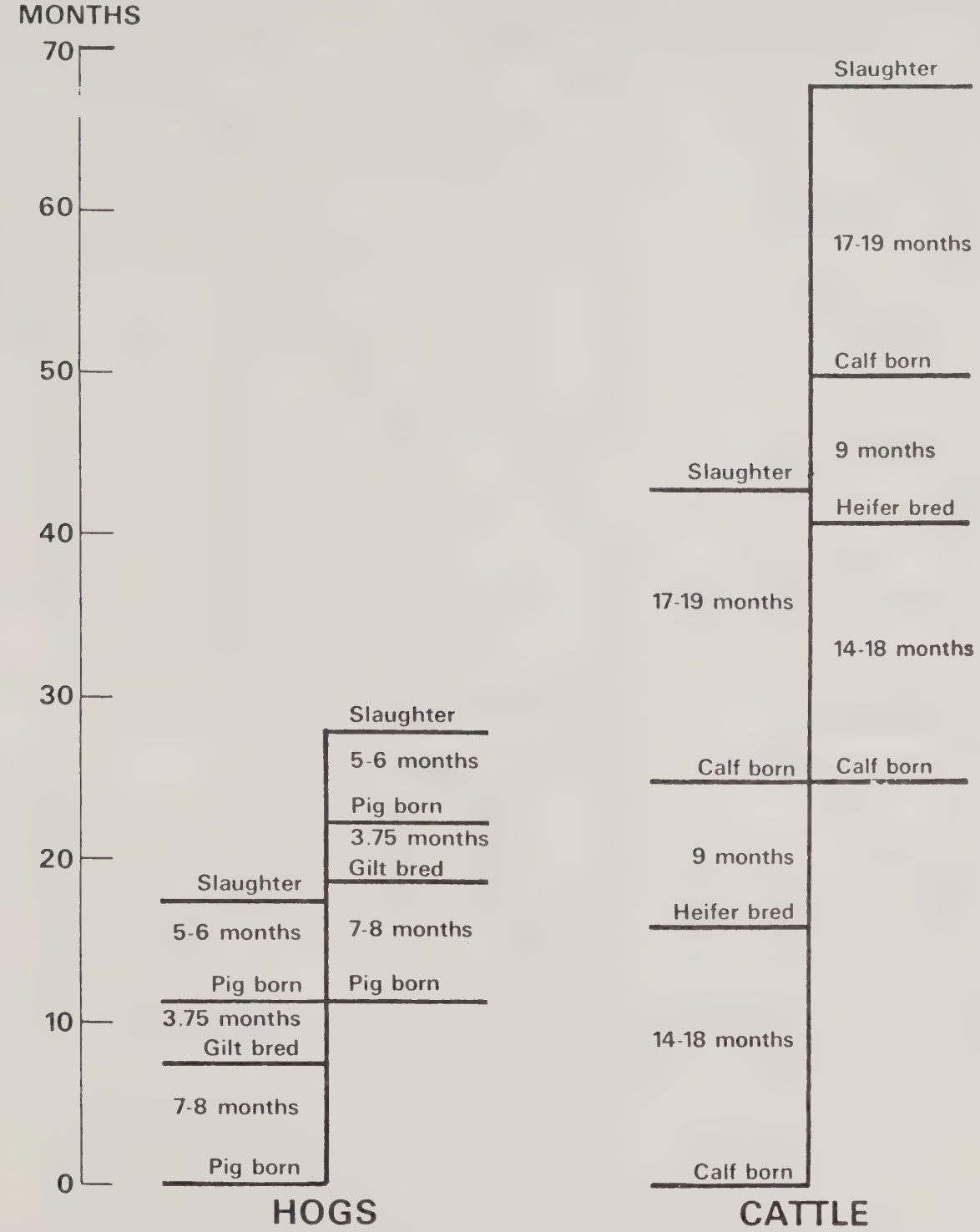


Figure 12

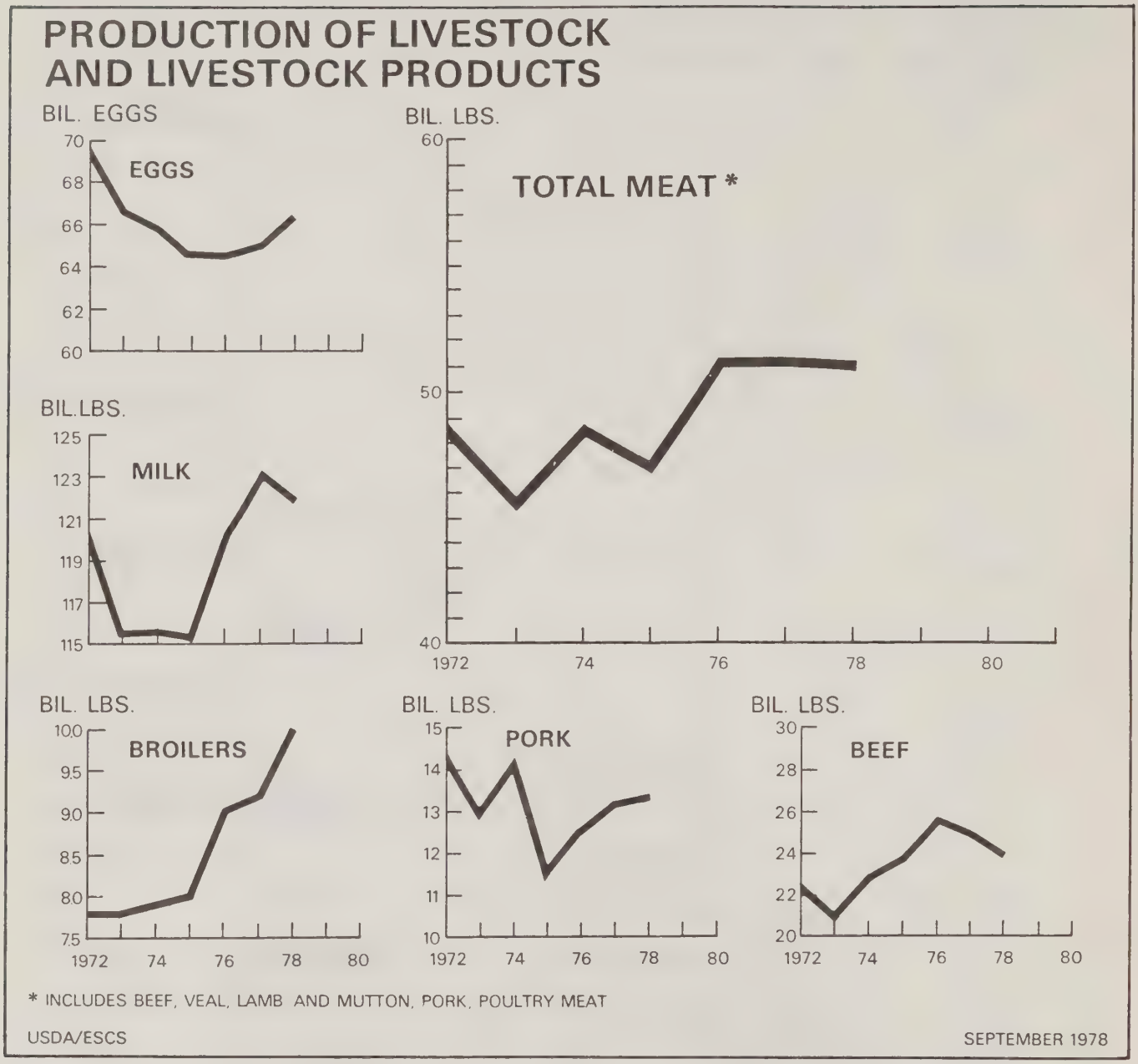
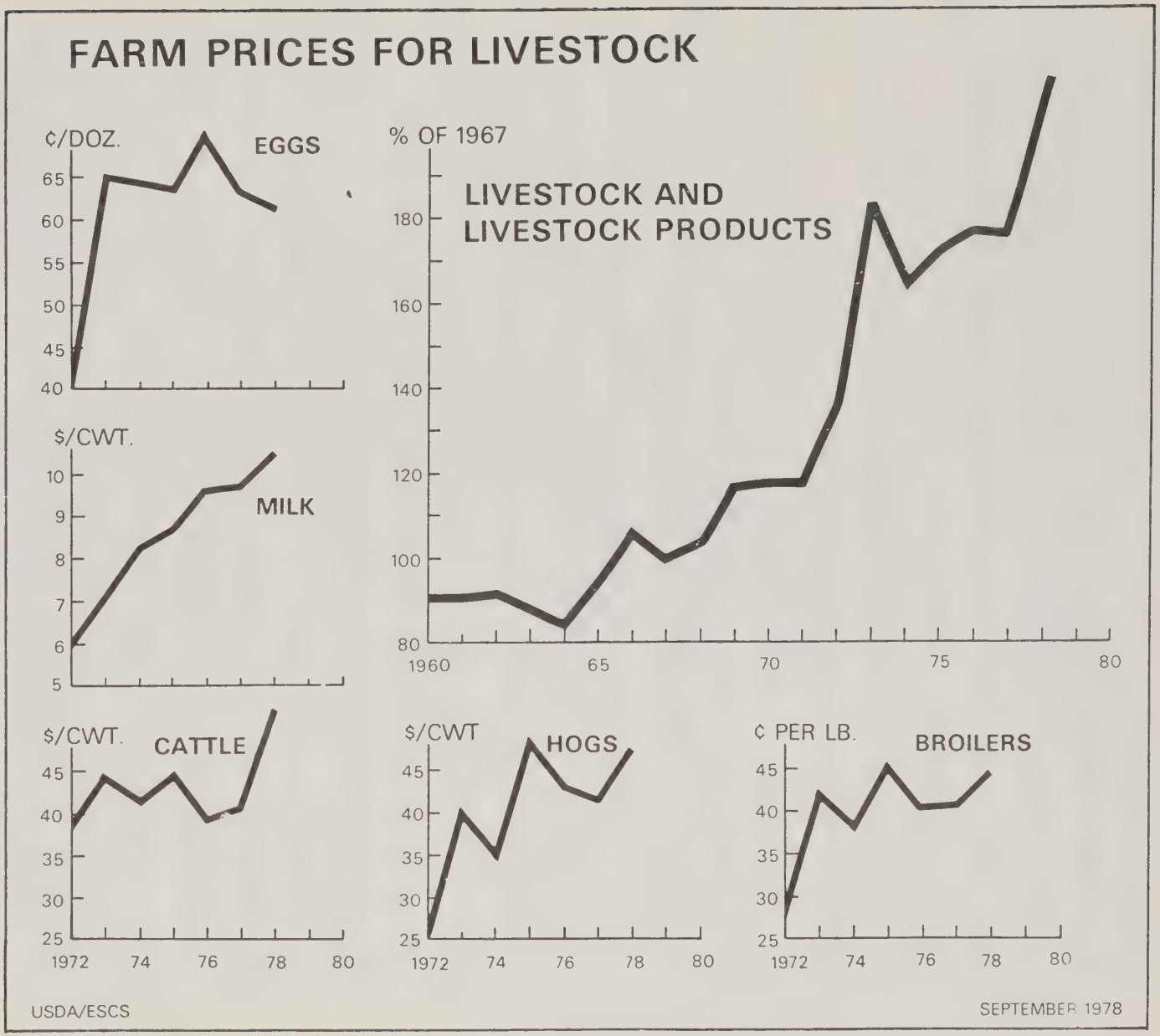

PRODUCTION OF LIVESTOCK AND LIVESTOCK PRODUCTS
BIL. EGGS
EGGS
70
68
66
64
62
60
BIL. LBS.
TOTAL MEAT *
60
50
40
1972
74
76
78
80
BIL.LBS.
MILK
125
123
121
119
117
115
BIL. LBS.
BROILERS
10.0
9.5
9.0
8.5
8.0
7.5
1972
74
76
78
80
BIL. LBS.
PORK
15
14
13
12
11
10
1972
74
76
78
80
BIL. LBS.
BEEF
30
28
26
24
22
20
1972
74
76
78
80
* INCLUDES BEEF, VEAL, LAMB AND MUTTON, PORK, POULTRY MEAT
USDA/ESCS
SEPTEMBER 1978

Figure 13


FARM PRICES FOR LIVESTOCK
¢/DOZ.
EGGS
65
60
55
50
45
40
$/CWT.
MILK
10
9
8
7
6
5
$/CWT.
CATTLE
45
40
35
30
25
1972
74
76
78
80
% OF 1967
LIVESTOCK AND
LIVESTOCK PRODUCTS
180
160
140
120
100
80
1960
65
70
75
80
$/CWT
HOGS
45
40
35
30
25
1972
74
76
78
80
¢ PER LB.
BROILERS
45
40
35
30
25
1972
74
76
78
80
USDA/ESCS
SEPTEMBER 1978

consumption requirements. Global wheat output should be just under the 1976 record and the rice harvest should be the largest ever.

World feed grain production may also set a record this year, if current favorable weather patterns continue. Production will probably surpass expected world consumption for the year.

World production of oilseeds and meals may surpass last year's record by 7 percent, near expected consumption.

World cotton output will be close to consumption in 1978, though production will be 3 percent less than last year's.

Wheat. The global grain outlook was an important factor in the August 15 20-percent set-aside requirement the Administration announced for participation in the 1979 wheat program. World wheat consumption in 1978 is projected to be 1-½ percent below production and foreign stocks are expected to rise. With unrestrained U.S. production in 1979, however, U.S. stocks would increase substantially and domestic wheat prices would drop about 10 percent.

The set-aside will hold U.S. wheat production in 1979 about 6 million metric tons below unrestrained production. Wheat prices should average around $2.75 per bushel barring unusual weather patterns. Our stocks would be reduced only slightly.

Feed grains. A decision on set-aside requirements for the 1979 feed grain program must be announced by November 15. Secretary Bergland has said he hopes to announce the program earlier, to give producers more time to make their marketing and planting decisions.

At present, world feed grain production is expected to exceed requirements by about 1 percent. The outlook is still uncertain, of course, as Southern Hemisphere grains are only now being planted.

Figure 14

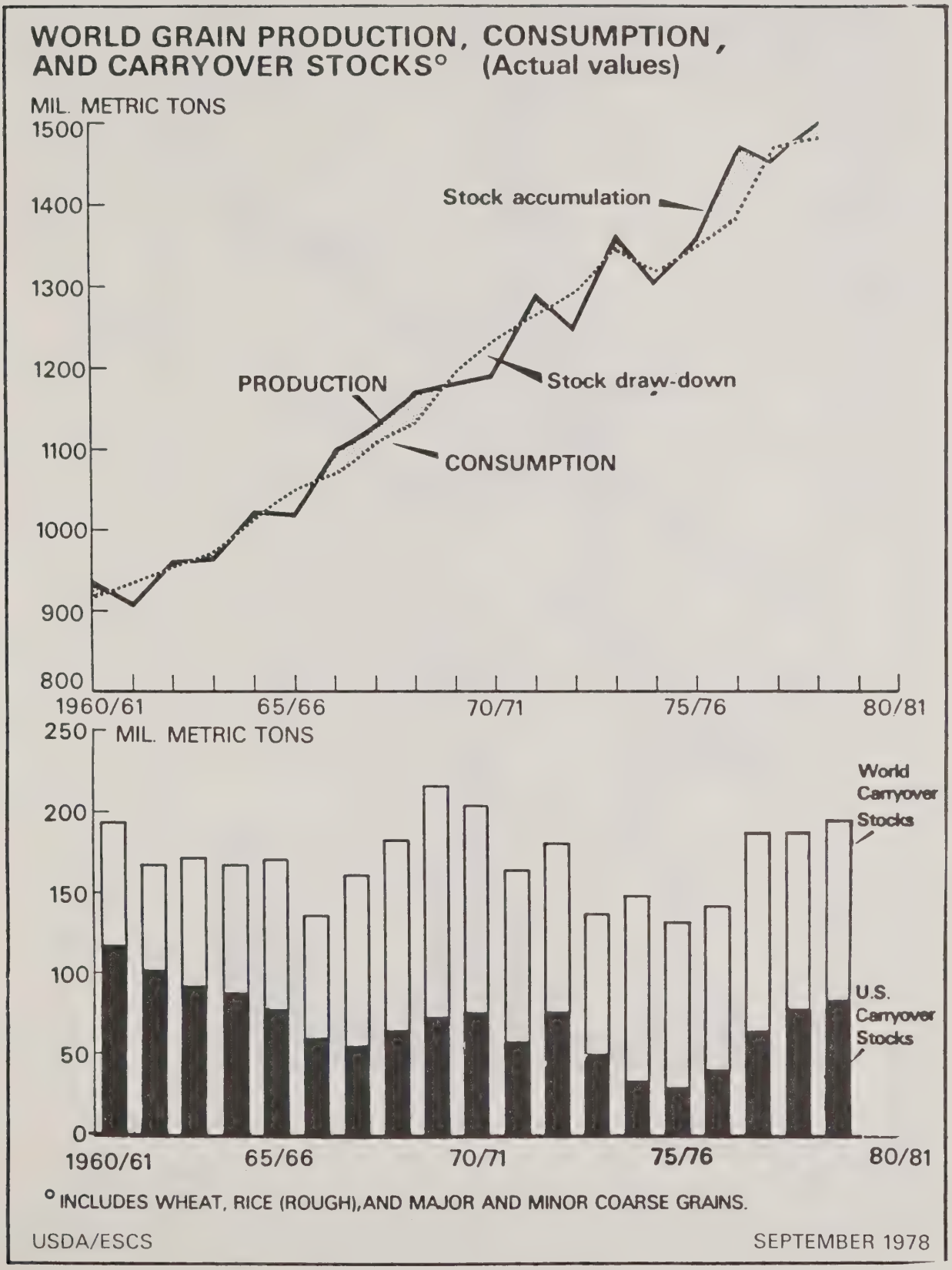

WORLD GRAIN PRODUCTION, CONSUMPTION, AND CARRYOVER STOCKS° (Actual values)
MIL. METRIC TONS
1500
1400
1300
1200
1100
1000
900
800
Stock accumulation
PRODUCTION
Stock draw-down
CONSUMPTION
1960/61
65/66
70/71
75/76
80/81
250
MIL. METRIC TONS
200
150
100
50
0
World Carryover Stocks
U.S. Carryover Stocks
1960/61
65/66
70/71
75/76
80/81
° INCLUDES WHEAT, RICE (ROUGH), AND MAJOR AND MINOR COARSE GRAINS.
USDA/ESCS
SEPTEMBER 1978

Figure 15

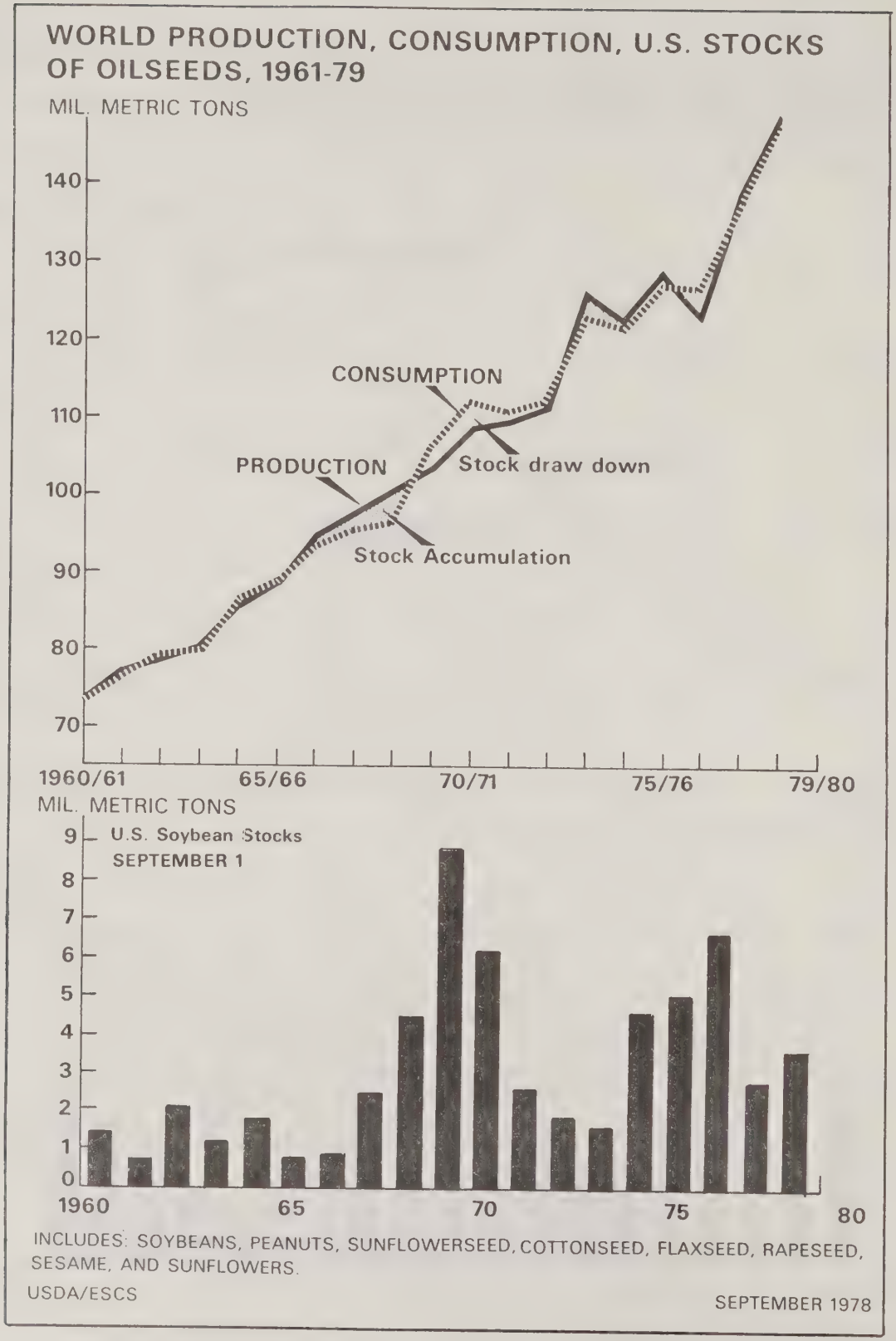

WORLD PRODUCTION, CONSUMPTION, U.S. STOCKS OF OILSEEDS, 1961-79
MIL. METRIC TONS
140
130
120
110
100
90
80
70
CONSUMPTION
PRODUCTION
Stock draw down
Stock Accumulation
1960/61
65/66
70/71
75/76
79/80
MIL. METRIC TONS
U.S. Soybean Stocks
SEPTEMBER 1
9
8
7
6
5
4
3
2
1
0
1960
65
70
75
80
INCLUDES: SOYBEANS, PEANUTS, SUNFLOWERSEED, COTTONSEED, FLAXSEED, RAPESEED, SESAME, AND SUNFLOWERS.
USDA/ESCS
SEPTEMBER 1978

Figure 16

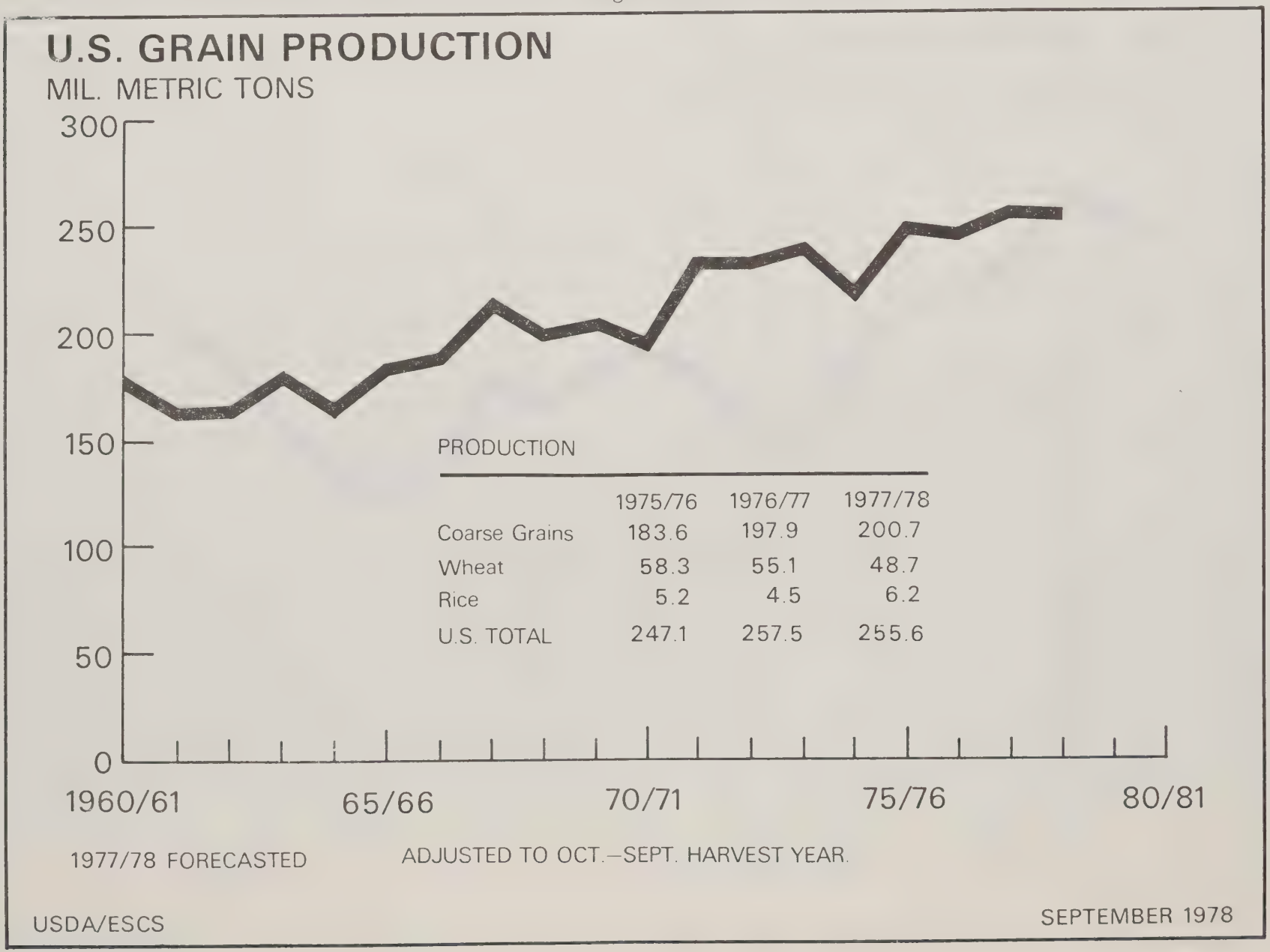
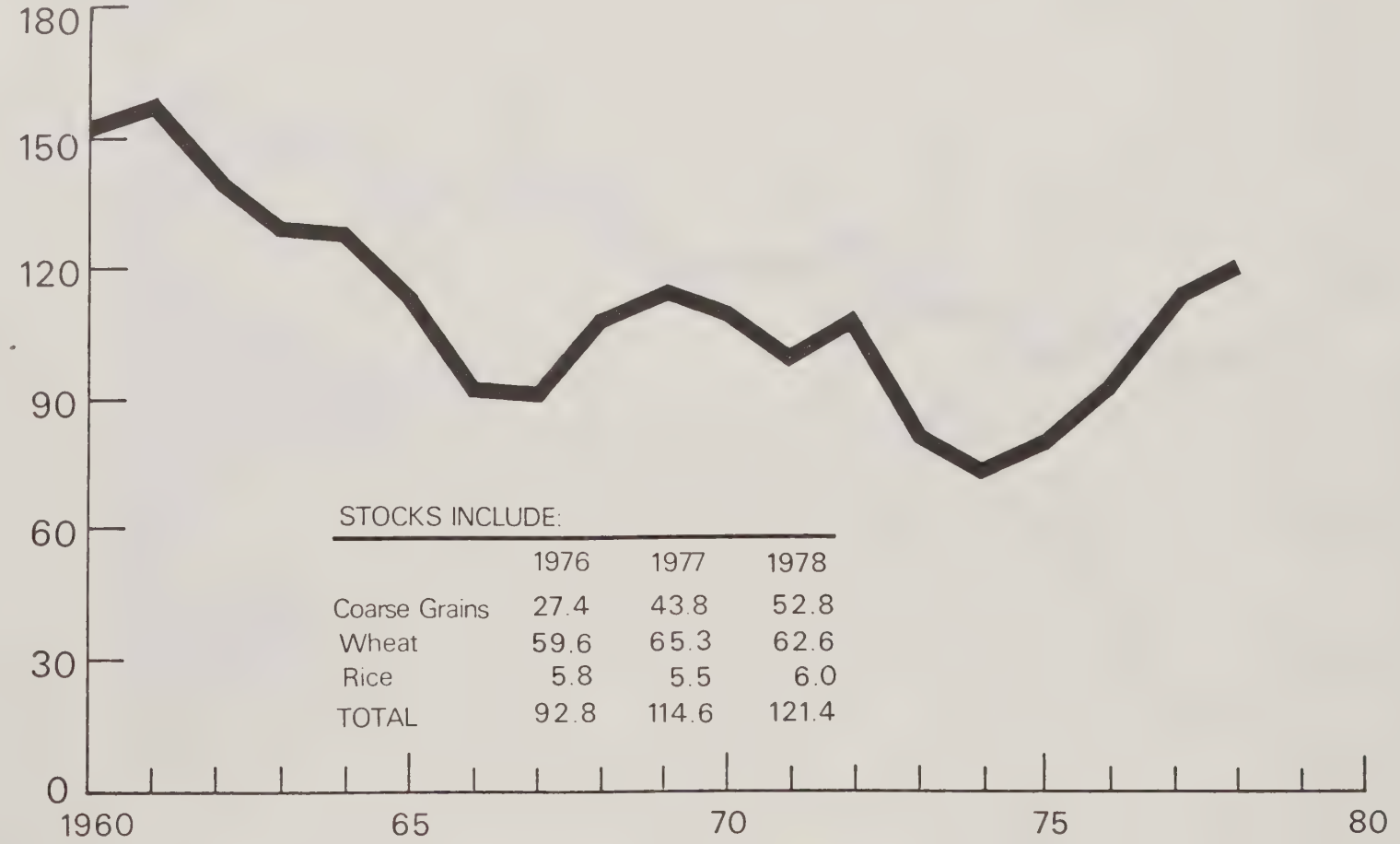

U.S. GRAIN PRODUCTION
MIL. METRIC TONS
300
250
200
150
100
50
0
1960/61
65/66
70/71
75/76
80/81
PRODUCTION
1975/76 1976/77 1977/78
Coarse Grains 183.6 197.9 200.7
Wheat 58.3 55.1 48.7
Rice 5.2 4.5 6.2
U.S. TOTAL 247.1 257.5 255.6
1977/78 FORECASTED
ADJUSTED TO OCT.–SEPT. HARVEST YEAR.
USDA/ESCS
SEPTEMBER 1978

Figure 17

U.S. GRAIN STOCKS

MIL. METRIC TONS



STOCKS INCLUDE:

	1976	1977	1978
Coarse Grains	27.4	43.8	52.8
Wheat	59.6	65.3	62.6
Rice	5.8	5.5	6.0
TOTAL	92.8	114.6	121.4

1978 FORECASTED. STOCKS AS OF OCT. 1

USDA/ESCS

1978 SEPTEMBER

Barring unusual weather in the Southern Hemisphere during the growing season, we can expect foreign feed grain stock levels to remain steady. Continued favorable U.S. weather could lead to a substantial increase in our stocks. Domestic feed grain stocks are presently estimated to be the highest level in 6 years, around 40 million metric tons.

The Administration's decision on a set-aside for the 1979 feed grain crop will depend heavily on the outcome of this fall's harvest. We are currently projecting 1978 feed grain output at 209 million metric tons, 3 percent above last year's record production.

If this large crop is realized, our feed grain supplies of 250 million tons for the 1978/79 marketing season will surpass last year's record by about 8 percent. These large supplies would hold farm prices near current loan levels.

Fish and Imported Foods

In contrast to 1977 when the 30-percent increase in retail prices of fish and imported foods accounted for over two-thirds of the increase in the consumer price index for food, increases from that sector in 1978 have been much less. Prices for fish and imported foods in 1978 are now expected to average 10 percent above last year. These account for about one-tenth of the total increase in food prices. Declines in coffee prices were offset by increases in the prices of sugar and fish. In June, retail prices of sugar and fish were 9 and 11 percent above a year ago with coffee prices down 20 percent.

The cold front that moved through Brazil in August did not affect Brazil's 1978 coffee crop which was already harvested. In fact, production increased in 1978 from 1977, and preliminary reports do not indicate that the cold front will significantly affect 1979/80 production. The larger 1978/79 supplies are well in line with consumption estimates. Green coffee prices and retail prices will likely continue to decline in coming months at a more moderate rate.

Sugar price prospects are expected to continue to fluctuate in response to estimates of 1978/79 yields and sucrose recovery and related world and U.S. sugar program developments. As of June, retail sugar prices were around 24 1/2 cents per pound, about 9 percent above a year ago. Current prospects indicate 1978/79 world sugar production will total from 87 to 91 million metric tons, raw value, compared with the revised 90.6 million estimate for 1977/78. This level of production would suggest only a slight further net addition to current large world stocks.

The price outlook for sugar is heavily dependent upon domestic sugar programs and the success of the International Sugar Agreement (ISA). This Administration is seeking legislation which will fulfill our commitment to income protection for domestic sugar growers in a manner that does not add to the inflationary pressures on our economy and is fully consistent with the ISA. We have proposed a 14.5-cent-per-pound market price objective with a commitment to protect grower returns through deficiency payments at a level based upon estimated costs of production and consistent with the protection provided the producers of other major crops.

1979 Food Price Proposals

In looking ahead to 1979, uncertainties are readily apparent in all sectors of the food system. Weather, the pattern of livestock production and developments in general economic growth and employment in the U.S. and around the world will be the primary determinants of 1979 farm prices. Marketing charges will be heavily dependent upon the results of significant wage negotiations in key sectors and other general inflationary pressures. Imported foods, particularly sugar, will reflect policy actions as well as crop production developments.

Private forecasters anticipate a rate of inflation in the range of 6 1/2 to 7 1/2 percent. Increases of these magnitudes would imply an increase of retail food prices of 4 to 5 percent.

Fish and imported food prices remain uncertain, but barring major aberrations, this component could add only 1 to 2 percent to food prices.

The range of uncertainty on our farm prices is wider than for the general rate of inflation. But with feed (feed grains, hay and meals) supplies almost certain to exceed both national and international consumption requirements, 1979 feedstuff prices will be below the calendar year 1978 average in 1979. This will encourage an expansion in livestock product production.

Private forecasters look for a gain of 7 to 9 percent in food prices, which implies higher farm prices, primarily meat and dairy products.

But the key to food prices in 1979 rests mainly upon the rate of expansion in pork and poultry meat. Beef supplies will be down and will cost more unless pork and poultry production expand rapidly.

Dairy product prices will be 6 to 8 percent higher. Fruit and vegetable prices will remain highly sensitive to weather.

The range of uncertainty is also dependent upon 1979 crop prospects and farm program decisions. Crop price increases through 1979 would curb the expansion in livestock production only slightly because livestock product prices will be relatively favorable. Adverse weather could push some additional beef to market and provide some temporary gains in production.

All in all, farm prices compared with 1978 could be from relatively stable to up significantly as this past year has demonstrated. A stable farm price situation in 1979 would likely result in food price increases on the order of 4 or 5 percent, while significantly stronger farm prices would almost certainly push retail prices higher.